

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**JANUARY 17, 2002**

**IN RE:**

**UNITED TELEPHONE-SOUTHEAST, INC.  
TARIFF TO REDUCE SWITCHED ACCESS  
RATES AND INCREASE TOLL RATES**

**DOCKET NO.  
00-01067**

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**ORDER APPROVING TARIFF**

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This matter came before the Tennessee Regulatory Authority (the "Authority") at the regularly scheduled Authority Conference held on February 21, 2001, for consideration of United Telephone-Southeast, Inc. ("UTSE") Tariff to Reduce Switched Access Rates and Increase Toll Rates (the "Tariff") filed on December 1, 2000. The Tariff proposes to decrease switched access rates by \$1.92 million and increase long distance rates to consumers by \$1.44 million annually.

UTSE filed this Tariff on December 4, 2000 with an effective date of January 1, 2001. At an Authority Conference held on December 19, 2000, a majority of Directors voted to suspend the effectiveness of the tariff for thirty (30) days.<sup>1</sup> On December 21, 2000, the Authority sent a data request to UTSE. A second data request was sent to UTSE on January 11, 2001. UTSE provided a partial reply to the first data request on January 4, 2001 and a complete reply on January 12, 2001. At an Authority Conference held on January 23, 2001, the Directors

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<sup>1</sup> Director Greer's motion to approve the tariff did not receive a second vote. He did not vote in favor of the suspension.

voted unanimously to re-suspend the Tariff for sixty (60) days. UTSE's filed its reply to the Authority's second data request on January 25, 2001.

According to the information provided by UTSE, the net revenue effect to UTSE of the access rate reductions and toll rate increases is a revenue reduction of \$475,000 in the non-basic service category. Thus, the filing creates \$475,000 in additional headroom<sup>2</sup> for which other non-basic rates may be increased. UTSE represents that this filing reduces its revenues by \$480,000 (\$1.92 million decrease in access and a \$1.44 million increase in toll rates).

Under this Tariff, UTSE's affiliate, Sprint Long Distance, will receive \$475,000 in access savings for which only \$100,000 will be flowed through to end-users of direct distance dialing ("DDD") services, basically residence and small business customers.<sup>3</sup> These calculations are consistent with the interexchange carrier (IXC) rule designed to flow through access savings, in that \$375,000 of the total access savings are for non-DDD services large business customers.<sup>4</sup>

The Tariff raised concerns that if Sprint Long Distance had a dominant share of the interLATA market in UTSE's territory, the access reduction would benefit UTSE's affiliate company more than any other carrier, thereby creating a potential violation of Tenn. Code Ann. § 65-5-208(c)<sup>5</sup> by providing a preference to its affiliated long distance service. Based upon market

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<sup>2</sup> Headroom represents the difference between actual aggregate revenue and aggregate revenues allowable under the formula set forth in Tenn. Code Ann. § 65-5-209(e).

<sup>3</sup> Sprint Long Distance will receive \$475,000 in access costs savings, and has indicated that pursuant to the existing IXC rule, approximately \$100,000 of the access savings will be flowed through to its end users. Therefore, Sprint Long Distance will receive a net savings of \$375,000.

<sup>4</sup> The intent of the IXC rule providing for the flow through of access savings is that large businesses will lower rates via competitive forces, thereby negating the regulation necessity to flow through access savings to this segment of consumers. In actuality, the market for large businesses has conformed to these expectations, as IXCs routinely offer lower rates to high-volume users absent access reductions.

<sup>5</sup> Tenn. Code Ann. § 65-5-208(c) provides in part that "...The price floor shall equal the incumbent local exchange telephone company's tariffed rates for essential elements utilized by competing telecommunications service providers plus the total long-run incremental cost of the competitive elements of service...The authority shall, as appropriate, also, adopt other rules or issue orders to prohibit cross-subsidization, preferences to competitive services or affiliated entities, predatory pricing, price squeezing, price discrimination, tying arrangements or other anti-competitive practices."

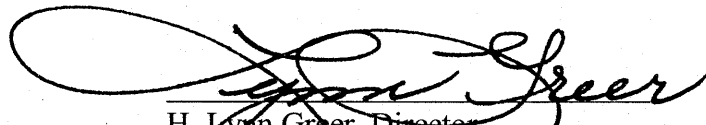
share data obtained to determine whether UTSE was indulging in any anti-competitive practices, the Authority finds that AT&T Communications of the South Central States, Inc. will benefit the most from these reductions because of its forty percent (40%) share of this market. Based on this information, the Authority's concern over the potential of any anti-competitive practices has been alleviated.

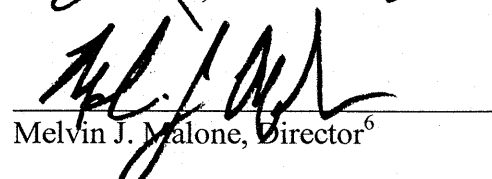
Upon consideration of this matter, the Directors determined that the Tariff as filed conforms to Tennessee "Price Cap Regulation" statutes governing non-basic services and the statutory price floor as required by Tenn. Code Ann. § 65-5-208. Based on this finding, the Directors voted unanimously to approve the Tariff.

**IT IS THEREFORE ORDERED THAT:**


United Telephone-Southeast, Inc. Tariff to Reduce Switched Access Rates and Increase Toll Rates is approved.

  
Sara Kyle, Chairman

  
H. Lynn Greer, Director

  
Melvin J. Malone, Director<sup>6</sup>

ATTEST:

  
K. David Waddell, Executive Secretary

<sup>6</sup> Director Malone expressed his concern regarding an apparent emerging pattern of access reductions being virtually wholly offset at the expense of small business and residential customers. The influence of current competitive activity on price in the intralata toll market, for the small business and residential market segments, is seemingly insufficient to thwart regular price increases.